

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2011**

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), of the University of South Carolina (the University) as of and for the year ended June 30, 2011, which collectively comprise the Campuses' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Campuses. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust). These financial statements represent approximately 3 percent, 2 percent, and 7 percent, respectively, of assets, net assets, and revenues of the business-type activities. We also did not audit the financial statements of the University of South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster (collectively referred to as the Foundations). These financial statements represent approximately 85 percent, 92 percent, and 97 percent, respectively, of the assets, net assets, and revenues of the Campuses' aggregate discretely presented component units. The financial statements of the Trust and the Foundations were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trust and the Foundations, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Trust and the Foundations were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Campuses are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the University that is attributable to the transactions of the Campuses. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Campuses as of June 30, 2011, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the Campuses' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Elliott Davis, LLC

Columbia, South Carolina
December 7, 2011

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)

Overview of the Financial Statements and Financial Analysis

The University of South Carolina - Columbia and Regionals includes the Columbia, Medical School, Lancaster, Salkehatchie, Sumter and Union campuses (collectively referred to as the Campuses). The Campuses are pleased to present their financial statements for fiscal year 2011. While audited financial statements for fiscal year 2010 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses and will not include its blended component unit - the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust). Neither will this discussion include the discretely presented component units - the University of South Carolina's Research Foundation, Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina - Lancaster.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campuses, the results of operations, and cash flows of the Campuses as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campuses' net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Campuses' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

This discussion and analysis of the Campuses' financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Campuses as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Campuses. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (assets minus liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the Campuses' permanent endowment funds and are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

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Summary of Net Assets

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 526,631,997	\$ 460,231,286	\$ 66,400,711	14.43%
Capital assets, net	884,596,851	852,781,520	31,815,331	3.73%
Other noncurrent assets	<u>113,640,594</u>	<u>87,200,913</u>	<u>26,439,681</u>	30.32%
Total assets	<u>1,524,869,442</u>	<u>1,400,213,719</u>	<u>124,655,723</u>	8.90%
Liabilities				
Current liabilities	96,413,894	113,161,821	(16,747,927)	(14.80%)
Noncurrent liabilities	<u>407,728,284</u>	<u>358,633,957</u>	<u>49,094,327</u>	13.69%
Total liabilities	<u>504,142,178</u>	<u>471,795,778</u>	<u>32,346,400</u>	6.86%
Net Assets				
Invested in capital assets, net of related debt	491,520,917	491,454,995	65,922	0.01%
Restricted - nonexpendable	65,985,661	47,642,456	18,343,205	38.50%
Restricted - expendable	130,046,639	82,435,072	47,611,567	57.76%
Unrestricted	<u>333,174,047</u>	<u>306,885,418</u>	<u>26,288,629</u>	8.57%
Total net assets	<u>\$ 1,020,727,264</u>	<u>\$ 928,417,941</u>	<u>\$ 92,309,323</u>	9.94%

- Total assets of the Campuses increased by \$124.7 million. Current assets increased \$66.4 million, primarily due to the increase in restricted expendable net assets of \$47.6 million.
- The increase in noncurrent liabilities of \$49.1 million is primarily attributable to an increase in long-term debt. Bonds in the amount of \$20.4 million were issued to provide funding for the renovation and construction of academic buildings. Bonds were also issued to fund athletic facility construction.
- Net assets of the Campuses increased during the year by \$92.3 million. The increase is driven by the \$18.3 million increase in restricted nonexpendable endowment funds, \$47.6 million increase in restricted expendable capital project net assets, and a \$26.3 million increase in unrestricted net assets.

Unrestricted net assets result from accumulated excesses of revenue over expenses derived from the Campuses' current fund operations. The Campuses' unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net assets include balances from operations of Education

and General (E&G) activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net assets are not subject to externally imposed stipulations, most of these resources have been committed for specific activities including academic and research programs, capital projects, and significant upgrades to the campus technology network.

Unrestricted net assets increased by \$26.3 million, based on the following:

- Education and general - remained flat with a modest increase of approximately \$33,000. Despite a reduction of state appropriations totaling more than \$91.4 million since the 2008 fiscal year, no mid-year reductions were made in the 2011 fiscal year. Academic funds remain available to support faculty hiring and associated start up costs.
- With the availability of \$28.5 million in stimulus funding for the State Fiscal Stabilization Funds, the Campuses experienced an increase in operating funds carried forward as some recurring expenditures were covered with one-time Federal funds.

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- The Columbia campus retained the Prudential demutualization proceeds of \$4.9 million recognized in fiscal year 2010. These funds were paid out in September 2011.
- Auxiliaries - increase of \$3.6 million from fiscal year 2010. Housing balances were reduced for planned renovations. Athletic revenues increased due to additional revenue from the Southeastern Conference. The Student Health Center balance increased as a planned construction project moved forward in the state approval process. A significant down payment from fund balance will be used to reduce the amount of financing needed once construction on the new facility begins. Other auxiliaries experienced an increase in revenues from higher student enrollments.
- Unexpended plant funds - increased by \$17.8 million. An upfit of the Innovista Discovery building was prefunded with \$17.5 million in indirect cost recoveries. The approval process for this capital project is underway. The remaining increases are from renovation reserves across the campuses.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public university's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institutions, both operating and non-operating, and the expenses paid by the institutions, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institutions.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institutions. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institutions. Non-operating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor non-operating revenues and are reported after "Income before other revenues and transfers."

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Summary of Revenues, Expenses and Changes in Net Assets				
	2011	2010	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees, net	\$ 282,275,066	\$ 250,366,278	\$ 31,908,788	12.74%
Federal grants and contracts	141,048,777	125,297,309	15,751,468	12.57%
State grants and contracts	59,402,397	58,986,483	415,914	0.71%
Local grants and contracts	1,114,923	820,242	294,681	35.93%
Nongovernmental grants and contracts	25,572,483	25,761,825	(189,342)	(0.73%)
Sales and services of educational and other activities	22,875,178	20,240,515	2,634,663	13.02%
Sales and services of auxiliary enterprises, net	105,449,633	99,555,879	5,893,754	5.92%
Interest collected on student loans	289,512	281,710	7,802	2.77%
Other fees	5,686,531	5,584,800	101,731	1.82%
Other operating revenues	<u>6,393,323</u>	<u>4,057,632</u>	<u>2,335,691</u>	57.56%
Total operating revenues	<u>650,107,823</u>	<u>590,952,673</u>	<u>59,155,150</u>	10.01%
Operating Expenses:				
Salaries and wages	401,786,897	389,255,864	12,531,033	3.22%
Fringe benefits	114,548,756	107,325,137	7,223,619	6.73%
Services and supplies	184,796,296	166,595,461	18,200,835	10.93%
Utilities	25,406,308	23,759,270	1,647,038	6.93%
Scholarships and fellowships	18,085,551	17,924,546	161,005	0.90%
Depreciation expense	<u>43,310,696</u>	<u>41,980,534</u>	<u>1,330,162</u>	3.17%
Total operating expenses	<u>787,934,504</u>	<u>746,840,812</u>	<u>41,093,692</u>	5.50%
Operating loss	(137,826,681)	(155,888,139)	18,061,458	(11.59%)
Net nonoperating revenues	<u>205,671,828</u>	<u>226,661,642</u>	<u>(20,989,814)</u>	(9.26%)
Income before other revenues and transfers	67,845,147	70,773,503	(2,928,356)	(4.14%)
Other revenues and transfers	<u>24,464,176</u>	<u>22,218,662</u>	<u>2,245,514</u>	10.11%
Increase in net assets	92,309,323	92,992,165	(682,842)	(0.73%)
Net assets at beginning of year	<u>928,417,941</u>	<u>835,425,776</u>	<u>92,992,165</u>	11.13%
Net assets at end of year	<u>\$ 1,020,727,264</u>	<u>\$ 928,417,941</u>	<u>\$ 92,309,323</u>	9.94%

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The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented on this Summary are as follows:

- A net \$31.9 million increase in student tuition and fees, a net \$5.9 million increase in sales and services of auxiliary enterprises and a \$15.7 million increase in federal grants and contracts were largely responsible for the overall \$59.2 million increase in operating revenues. The increase in student tuition and fees is due both to enrollment increases across the Campuses and the 6.9% tuition increase at the Columbia campus and increases of 6.5% for the fall 2010 semester and 6.0% for the spring 2011 semester at the four Regional Campuses. The tuition increase for the Regional Campuses was scaled back for the spring following a request from the State of South Carolina Budget & Control Board. The tuition increase is necessary for meeting the Campuses' missions and strategic goals especially as state appropriations decline.
- Operating expenses increased \$41.1 million, approximately 5.5 percent. The increased expenditures reflect the recalibration of the operating budget to the mission following the financial downturn. The increase in compensation and benefits expenditures were mainly attributable to the filling of critical positions to service growing student enrollment and increased employee benefits due to changes in the state health insurance. Services and supplies increased \$18.2 million reflecting use of Federal stimulus funds and the impact of inflation on materials.
- Net nonoperating revenues decreased \$21.0 million due to continued reductions in state appropriations. The State Fiscal Stabilization Funds from the Federal stimulus were recorded as nonoperating Federal grants. The full \$28.5 million available for 2011 and the balance carried over from the prior year were utilized in 2011. Also included as nonoperating Federal grants is additional Pell Grant revenue of \$6 million more than the prior year.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts.

The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

During the year, various projects on the Columbia campus were completed including the total renovation and reconfiguration of Patterson Hall. The nine story dorm was reconfigured to suite style accommodations. The basement of the building was converted into office space for the Housing and Residential Services Office.

In June 2011, the Athletic Department completed the second building located in the Athletic Village at the Roost with the opening of the five level, 368 space parking garage.

The Campuses' indebtedness consists of bonds payable of \$371,650,000 and notes payable of \$1,025,670. During the current year, \$78,695,000 in revenue bonds and \$38,945,000 in State institution bonds were issued to fund various capital projects and partially advance refund other outstanding bonds.

Economic Outlook

The economic position of the Campuses continues to be loosely tied to that of the State of South Carolina as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations. The state closed the 2011 fiscal year with a surplus for the second straight year. The Campuses received a significant state funding reduction to begin the 2011 year totaling \$30.2 million. Along with all public higher education institutions in South Carolina, the Campuses received a 6% state appropriations reduction to begin the 2012 fiscal year. Based on a strong start to the current fiscal year it does not appear likely that the USC Campuses will receive mid-year cuts. However, due to the

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annualizations of entitlement programs and the ongoing need to fund K-12 education, planning is underway to budget another recurring reduction in state funding to start the 2013 fiscal year based on preliminary indications from the State.

The University's overall financial position remains strong, despite reductions in state appropriations. The University relies on tuition and fees to support the general operating budget and is aware of state funding support when tuition and fees are set. Tuition increases for the 2012 year were above the Higher Education Price Index (HEPI) but did not replace the full impact of state budget reduction to cover all inflationary needs. Resident undergraduate tuitions for the Campuses are lower than some comparable institutions in South Carolina. Demand for enrollment and interest in the Campuses increased overall for Fall 2011. The Campuses also experienced record numbers for research grants and private giving.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statements of Net Assets**

	June 30, 2011 University	December 31, 2010 Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 352,273,339	\$ 11,919,791	\$ 364,193,130
Investments	-	6,942,363	6,942,363
Accounts receivable, net	41,809,494	5,375,994	47,185,488
Student loans receivable, current	2,540	-	2,540
Patients accounts receivable, net	-	3,340,000	3,340,000
Capital improvement bonds proceeds receivable	63,127	-	63,127
Inventories	1,781,920	-	1,781,920
Prepaid items	3,744,233	-	3,744,233
Restricted - cash and cash equivalents	120,918,596	141,668	121,060,264
Funds due from others	6,038,748	-	6,038,748
Total current assets	<u>526,631,997</u>	<u>27,719,816</u>	<u>554,351,813</u>
Noncurrent assets:			
Investments	6,007,557	-	6,007,557
Prepaid items	2,500,000	-	2,500,000
Notes receivable	19,638,910	-	19,638,910
Restricted - cash and cash equivalents	66,157,269	-	66,157,269
Restricted - federal student loans receivable	17,046,425	-	17,046,425
Capital assets, net of accumulated depreciation	884,596,851	12,480,954	897,077,805
Other assets	2,290,433	-	2,290,433
Total noncurrent assets	<u>998,237,445</u>	<u>12,480,954</u>	<u>1,010,718,399</u>
Total assets	<u>1,524,869,442</u>	<u>40,200,770</u>	<u>1,565,070,212</u>
LIABILITIES			
Current liabilities:			
Accounts payable	19,772,065	6,786,034	26,558,099
Retainage payable - current portion	1,651,254	-	1,651,254
Accrued interest payable	2,916,750	-	2,916,750
Accrued payroll and related liabilities	12,000,167	129,474	12,129,641
Accrued compensated absences - current portion	10,652,742	625,379	11,278,121
Capital lease obligations - current portion	480,000	132,503	612,503
Long-term debt - current portion	14,218,237	6,375,000	20,593,237
Deferred revenues	29,450,976	-	29,450,976
Deposits	2,268,198	-	2,268,198
Other liabilities	942,073	-	942,073
Funds held for others	2,061,432	-	2,061,432
Total current liabilities	<u>96,413,894</u>	<u>14,048,390</u>	<u>110,462,284</u>
Noncurrent liabilities:			
Retainage payable	304,399	-	304,399
Accrued compensated absences	12,012,667	705,215	12,717,882
Deferred revenues	683,333	-	683,333
Federal loan liability	16,350,188	-	16,350,188
Capital lease obligations	16,409,142	426,096	16,835,238
Long-term debt	361,968,555	-	361,968,555
Other liabilities	-	197,872	197,872
Total noncurrent liabilities	<u>407,728,284</u>	<u>1,329,183</u>	<u>409,057,467</u>
Total liabilities	<u>504,142,178</u>	<u>15,377,573</u>	<u>519,519,751</u>
NET ASSETS			
Invested in capital assets, net of related debt	491,520,917	5,547,355	497,068,272
Restricted for:			
Nonexpendable	65,985,661	-	65,985,661
Expendable			
Scholarships, research, instruction, and other	18,732,470	-	18,732,470
Loans	2,671,667	-	2,671,667
Capital projects	92,789,034	-	92,789,034
Debt service	15,853,468	141,668	15,995,136
Unrestricted	<u>333,174,047</u>	<u>19,134,174</u>	<u>352,308,221</u>
Total net assets	<u>\$ 1,020,727,264</u>	<u>\$ 24,823,197</u>	<u>\$ 1,045,550,461</u>

See accompanying notes to the financial statements which are an integral part of these financial statements.

UNIVERSITY OF SOUTH CAROLINA
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Statements of Revenues, Expenses and Changes in Net Assets

	For the years ended		
	June 30, 2011	December 31, 2010	
	University	Trust	Total
OPERATING REVENUES			
Student tuition and fees (\$20,787,594 pledged for bonds)	\$ 455,336,657	\$ -	\$ 455,336,657
Less scholarship allowance	(173,061,591)	-	(173,061,591)
Patient services, net	-	37,806,386	37,806,386
Federal grants and contracts	141,048,777	-	141,048,777
State grants and contracts	59,402,397	-	59,402,397
Local grants and contracts	1,114,923	-	1,114,923
Nongovernmental grants and contracts	25,572,483	-	25,572,483
Sales and services of educational and other activities	22,875,178	-	22,875,178
Sales and services of auxiliary enterprises (\$15,238,001 pledged for bonds)	109,890,910	-	109,890,910
Less scholarship allowance	(4,441,277)	-	(4,441,277)
Interest collected on student loans	289,512	-	289,512
Other fees (\$1,754,229 pledged for bonds)	5,686,531	-	5,686,531
Other operating revenues	6,393,323	30,276,745	36,670,068
Total operating revenues	650,107,823	68,083,131	718,190,954
OPERATING EXPENSES			
Salaries and wages	401,786,897	37,297,902	439,084,799
Fringe benefits	114,548,756	1,775,377	116,324,133
Services and supplies	184,796,296	18,516,062	203,312,358
Utilities	25,406,308	-	25,406,308
Scholarships and fellowships	18,085,551	-	18,085,551
Depreciation expense	43,310,696	1,087,504	44,398,200
Total operating expenses	787,934,504	58,676,845	846,611,349
Operating loss	(137,826,681)	9,406,286	(128,420,395)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	107,843,377	-	107,843,377
Federal grants	68,548,613	-	68,548,613
Gifts	35,099,201	-	35,099,201
Investment income	5,222,514	831,011	6,053,525
Endowment income	6,073,650	-	6,073,650
Loss on disposal of capital assets	(1,472,137)	(32,691)	(1,504,828)
Interest on capital asset related debt	(15,657,269)	(364,592)	(16,021,861)
Other nonoperating revenues, net	13,879	-	13,879
Net nonoperating revenues	205,671,828	433,728	206,105,556
Income (loss) before other revenues and transfers	67,845,147	9,840,014	77,685,161
State capital appropriations	2,072,971	-	2,072,971
Capital grants and gifts	5,095,837	-	5,095,837
Additions to permanent endowments	18,090,194	-	18,090,194
Transfers to other state funds, net	(1,433,478)	-	(1,433,478)
Transfers from other campuses, net	638,652	-	638,652
Change in net assets	92,309,323	9,840,014	102,149,337
NET ASSETS - BEGINNING OF YEAR	928,417,941	14,983,183	943,401,124
NET ASSETS - END OF YEAR	\$ 1,020,727,264	\$ 24,823,197	\$ 1,045,550,461

See accompanying notes to the financial statements which are an integral part of these financial statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statements of Cash Flows**

	For the years ended		Total
	June 30, 2011 University	December 31, 2010 Trust	
OPERATING ACTIVITIES			
Student tuition and fees	\$ 281,811,256	\$ -	\$ 281,811,256
Patient services, net	-	37,536,386	37,536,386
Research grants and contracts	223,301,711	-	223,301,711
Sales and services of educational and other activities	23,135,348	-	23,135,348
Sales and services of auxiliary enterprises	106,272,028	-	106,272,028
Student loans disbursed	(2,237,500)	-	(2,237,500)
Student loans collected	2,708,029	-	2,708,029
Interest collected on student loans	289,512	-	289,512
Inflows from federal family education loans	218,358,382	-	218,358,382
Outflows from federal family education loans	(222,373,973)	-	(222,373,973)
Payments to employees for services	(402,740,113)	(37,371,632)	(440,111,745)
Payments to employees for benefits	(113,584,260)	(1,758,410)	(115,342,670)
Payments to suppliers	(212,033,467)	(20,494,516)	(232,527,983)
Payments to students for scholarships and fellowships	(18,085,551)	-	(18,085,551)
Other receipts	12,173,151	29,978,229	42,151,380
Inflows from agency funds	58,149,541	-	58,149,541
Outflows from agency funds	(53,903,584)	-	(53,903,584)
Net cash provided by (used for) operating activities	(98,759,490)	7,890,057	(90,869,433)
NONCAPITAL FINANCING ACTIVITIES			
State appropriations	107,843,377	-	107,843,377
Federal grants	69,061,145	-	69,061,145
Gifts	35,055,719	-	35,055,719
Additions to permanent endowments	18,090,194	-	18,090,194
Other nonoperating revenues, net	13,879	-	13,879
Transfers to other state funds, net	(761,693)	-	(761,693)
Federal loan liability	(161,594)	-	(161,594)
Net cash provided by noncapital financing activities	229,141,027	-	229,141,027
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	125,235,656	-	125,235,656
State capital appropriations	2,279,635	-	2,279,635
Capital grants and gifts	4,404,970	-	4,404,970
Proceeds from sale of capital assets	49,363	-	49,363
Purchase and construction of capital assets	(70,422,693)	(215,011)	(70,637,704)
Principal paid on capital asset related debt	(93,445,083)	(530,752)	(93,975,835)
Interest paid on capital asset related debt	(15,762,211)	(364,592)	(16,126,803)
Net cash used for capital and related financing activities	(47,660,363)	(1,110,355)	(48,770,718)
INVESTING ACTIVITIES			
Purchase of investments	-	(3,027,539)	(3,027,539)
Proceeds from the sale of investments	26,217	2,494,655	2,520,872
Investment Income	5,017,189	516,016	5,533,205
Endowment Income	5,707,278	-	5,707,278
Net cash provided by (used for) investing activities	10,750,684	(16,868)	10,733,816
Net increase in cash and cash equivalents	93,471,858	6,762,834	100,234,692
Cash and cash equivalents, beginning of year	445,877,346	5,298,625	451,175,971
Cash and cash equivalents, end of year	<u>\$ 539,349,204</u>	<u>\$ 12,061,459</u>	<u>\$ 551,410,663</u>
Reconciliation of cash and cash equivalents			
Cash and cash equivalents	\$ 352,273,339	\$ 11,919,791	\$ 364,193,130
Restricted - cash and cash equivalents, current	120,918,596	141,668	121,060,264
Restricted - cash and cash equivalents, noncurrent	66,157,269	-	66,157,269
	<u>\$ 539,349,204</u>	<u>\$ 12,061,459</u>	<u>\$ 551,410,663</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statements of Cash Flows**

	For the years ended		Total
	June 30, 2011 University	December 31, 2010 Trust	
Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities			
Operating income (loss)	\$ (137,826,681)	\$ 9,406,286	\$ (128,420,395)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation expense	43,310,696	1,087,504	44,398,200
Student loans cancelled	256,223	-	256,223
Change in current assets and liabilities			
Accounts receivable, net	(3,537,697)	(298,516)	(3,836,213)
Patient accounts receivables, net	-	(270,000)	(270,000)
Student loans receivable	470,529	-	470,529
Inventories	5,111	-	5,111
Prepaid items	(119,279)	-	(119,279)
Other assets	100	-	100
Accounts payable	(2,114,910)	(1,978,454)	(4,093,364)
Retainage payable - non-capital	141,992	-	141,992
Accrued payroll	(607,195)	-	(607,195)
Accrued benefits	964,496	16,967	981,463
Accrued annual leave and related liabilities	(346,021)	(73,730)	(419,751)
Deferred revenues	267,278	-	267,278
Deposits	43,211	-	43,211
Other liabilities	102,291	-	102,291
Funds held for others	230,366	-	230,366
Net cash provided by (used for) operating activities	<u>\$ (98,759,490)</u>	<u>\$ 7,890,057</u>	<u>\$ (90,869,433)</u>
NONCASH TRANSACTIONS			
Gifts of capital assets reducing proceeds of capital grants and gifts	<u>\$ 1,981,154</u>	<u>\$ -</u>	<u>\$ 1,981,154</u>
Capital assets acquired through a capital lease	<u>\$ -</u>	<u>\$ 23,294</u>	<u>\$ 23,294</u>
Transfer of capital assets to other campuses, net	<u>\$ (33,133)</u>	<u>\$ -</u>	<u>\$ (33,133)</u>
Change in value of investments recognized in investment income	<u>\$ -</u>	<u>\$ 397,165</u>	<u>\$ 397,165</u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u>\$ (287,684)</u>	<u>\$ -</u>	<u>\$ (287,684)</u>
Change in value of investments recognized in endowment income	<u>\$ 654,056</u>	<u>\$ -</u>	<u>\$ 654,056</u>

See accompanying notes to financial statements which are an integral part of these financial statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Net Assets
June 30, 2011**

ASSETS

Current assets

Cash and cash equivalents	\$ 1,147,875
Restricted cash and cash equivalents	34,793,019
Accounts receivable, net	30,639,328
Prepaid items and deposits	<u>127,530</u>
Total current assets	<u>66,707,752</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>321,317</u>
Total noncurrent assets	<u>321,317</u>
Total assets	<u>67,029,069</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	45,884,493
Notes payable - current portion	48,997
Deferred revenue	<u>19,409,597</u>
Total current liabilities	<u>65,343,087</u>

Noncurrent liabilities

Notes payable	<u>189,237</u>
Total noncurrent liabilities	<u>189,237</u>
Total liabilities	<u>65,532,324</u>

NET ASSETS

Invested in capital assets, net of related debt	83,083
Restricted - expendable for research	192,512
Unrestricted	<u>1,221,150</u>
Total net assets	<u><u>\$ 1,496,745</u></u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
University of South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2011**

REVENUES

Operating revenues	
Federal grants and contracts	\$ 101,277,811
Nongovernmental grants and contracts	70,464,835
Management fees and recoveries	22,221,056
Royalty income	72,377
Rental income	168,320
Other operating revenues	<u>325,301</u>
Total operating revenues	<u>194,529,700</u>

EXPENSES

Operating expenses	
Salaries and benefits	1,190,109
Services and supplies	1,567,361
Research and development direct costs	<u>191,104,007</u>
Total operating expenses	<u>193,861,477</u>
Operating income	<u>668,223</u>

NONOPERATING REVENUES (EXPENSES)

Grants to the University of South Carolina	(582,215)
Interest income	<u>68,895</u>
Net nonoperating expenses	<u>(513,320)</u>
Change in net assets	154,903
Net assets at beginning of year	<u>1,341,842</u>
Net assets at end of year	<u><u>\$ 1,496,745</u></u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Condensed Statements of Financial Position**

	June 30, 2011				December 31, 2010	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS						
Cash and cash equivalents	\$ 5,926,609	\$ 4,813,295	\$ 2,493,543	\$ 3,166,713	\$ 435,647	\$ 16,835,807
Investments	24,772,523	247,461,954	41,974,313	4,387,339	5,630,387	324,226,516
Real estate held for investment	30,318,279	1,582,411	-	-	-	31,900,690
Assets held in trust	-	57,741,555	-	-	-	57,741,555
Accounts receivable	318,420	2,418,076	758,432	1,317,296	-	4,812,224
Contributions receivable, net	2,387,855	16,220,005	3,217,313	-	889,547	22,714,720
Prepaid expenses	31,170	-	10,942	183,035	-	225,147
Other assets	253,076	-	113,320	28,578	-	394,974
Fixed assets, net of depreciation	16,542,876	26,588	-	153,020	1,859,160	18,581,644
Total assets	<u>\$ 80,550,808</u>	<u>\$ 330,263,884</u>	<u>\$ 48,567,863</u>	<u>\$ 9,235,981</u>	<u>\$ 8,814,741</u>	<u>\$ 477,433,277</u>
LIABILITIES						
Accounts payable and accrued expenses	\$ 1,892,374	\$ 7,808,437	\$ 1,349,975	\$ 179,456	\$ 45,550	\$ 11,275,792
Lines-of-credit	16,327,279	-	-	-	-	16,327,279
Deferred revenues	-	-	2,200	334,000	500	336,700
Bonds and notes payable	29,123,000	19,965,652	-	-	-	49,088,652
Other liabilities	17,866	-	-	-	-	17,866
Total liabilities	<u>47,360,519</u>	<u>27,774,089</u>	<u>1,352,175</u>	<u>513,456</u>	<u>46,050</u>	<u>77,046,289</u>
NET ASSETS						
Unrestricted	9,723,849	33,512,427	6,008,934	5,494,107	298,241	55,037,558
Temporarily restricted	20,430,543	98,629,876	19,318,280	3,228,418	1,321,396	142,928,513
Permanently restricted	3,365,928	170,347,492	21,888,474	-	7,149,054	202,750,948
Total Foundation net assets	<u>33,520,320</u>	<u>302,489,795</u>	<u>47,215,688</u>	<u>8,722,525</u>	<u>8,768,691</u>	<u>400,717,019</u>
Noncontrolling interest	<u>(330,031)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(330,031)</u>
Total net assets	<u>33,190,289</u>	<u>302,489,795</u>	<u>47,215,688</u>	<u>8,722,525</u>	<u>8,768,691</u>	<u>400,386,988</u>
Total liabilities and net assets	<u>\$ 80,550,808</u>	<u>\$ 330,263,884</u>	<u>\$ 48,567,863</u>	<u>\$ 9,235,981</u>	<u>\$ 8,814,741</u>	<u>\$ 477,433,277</u>

See accompanying notes to the financial statements which are an integral part of these statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities**

	For the years ended				December 31, 2010	
	June 30, 2011					
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS:						
Revenues, gains and other support						
Contributions	\$ 363,246	\$ 12,777,320	\$ 455,800	\$ 1,940,027	\$ 21,810	\$ 15,558,203
Investment returns	3,742,853	29,128,722	1,160,459	868,802	21,393	34,922,229
Earned income	3,066,463	-	1,381,156	367,801	6,000	4,821,420
Other	908,524	564,287	-	-	-	1,472,811
Gain on disposal of assets	2,933	-	-	-	-	2,933
Net assets released from restrictions:						
Transfers	-	4,660	501,708	(830,404)	82,800	(241,236)
Reclassification based on law change	46,731	-	179,031	-	-	225,762
Satisfaction of program restrictions	-	7,516,012	5,338,184	-	253,725	13,107,921
Expiration of time restrictions	-	(961,935)	-	-	-	(961,935)
Total revenues, gains and other support	8,130,750	49,029,066	9,016,338	2,346,226	385,728	68,908,108
Expenses						
Scholarships and student assistance	-	8,742,098	3,638,409	205,750	103,496	12,689,753
Program services	1,404,878	9,891,040	3,644,466	1,670,301	216,986	16,827,671
Supporting services	3,437,104	3,887,933	216,904	775,092	142,979	8,460,012
Total expenses	4,841,982	22,521,071	7,499,779	2,651,143	463,461	37,977,436
Change in unrestricted net assets	3,288,768	26,507,995	1,516,559	(304,917)	(77,733)	30,930,672

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Condensed Statements of Activities**

	For the years ended					
	June 30, 2011				December 31, 2010	
	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Contributions	333,882	5,024,154	1,775,702	134,028	584,824	7,852,590
Investment returns	390,946	16,317,380	5,956,762	-	175	22,665,263
Other	1,200	-	-	211,828	-	213,028
Net assets released from restrictions:						
Transfers	-	-	66,328	830,404	-	896,732
Reclassification based on law change	-	-	(179,031)	-	-	(179,031)
Satisfaction of program restrictions	(46,731)	(7,516,012)	(5,338,184)	-	(253,725)	(13,154,652)
Expiration of time restrictions	-	(452,774)	-	-	-	(452,774)
Change in temporarily restricted net assets	679,297	13,372,748	2,281,577	1,176,260	331,274	17,841,156
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	12,706,062	338,961	-	295,186	13,340,209
Investment returns	-	7,122	-	-	688,186	695,308
Net assets released from restrictions:						
Transfers	-	(4,660)	(568,036)	-	(82,800)	(655,496)
Expiration of time restrictions	-	1,414,709	-	-	-	1,414,709
Change in permanently restricted net assets	-	14,123,233	(229,075)	-	900,572	14,794,730
Change in net assets	3,968,065	54,003,976	3,569,061	871,343	1,154,113	63,566,558
Net decrease attributable to noncontrolling interest	(71,208)	-	-	-	-	(71,208)
NET ASSETS, BEGINNING OF YEAR	29,623,463	248,485,819	43,646,627	7,851,182	7,614,578	337,221,669
NET ASSETS, END OF YEAR	\$ 33,520,320	\$ 302,489,795	\$ 47,215,688	\$ 8,722,525	\$ 8,768,691	\$ 400,717,019

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

Note 1 - Summary Of Significant Accounting Policies

Nature of Operations

The University of South Carolina - Columbia and Regionals includes the Columbia, Medical School, Lancaster, Salkehatchie, Sumter and Union campuses (collectively referred to as the Campuses). The Campuses are all State-supported, coeducational institutions of higher education. The Campuses' primary purpose is to provide undergraduate graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure* provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Campuses and its blended component unit as the primary government and other related entities as discretely presented component units.

The Campuses are part of the University of South Carolina (the University) system. The University is a department of the State of South Carolina. It is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust) is a blended component unit of the Campuses. The Trust is organized and operates exclusively for the benefit of the Medical School to augment and aid education, research, and service in the field of health sciences. The Trust is considered a blended component unit because the Campuses have appointment authority of the Trust's board of directors. December 31 is the year-end date for the Trust and complete financial statements of the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202.

The Campuses' discretely presented component units are discussed in Note 12.

Financial Statements

The financial statement presentation for the Campuses meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campuses' net assets, revenues, expenses and changes in net assets and cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

For financial reporting purposes, the Campuses are considered to be engaged only in business-type activities. Accordingly, the Campuses' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The Campuses have elected not to apply *Financial Accounting Standards Board* (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Campuses consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

Investments

The Campuses account for their investments at fair value in accordance with GASB Codification Section 150, *Investments*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Campuses' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments

Noncurrent cash and investments primarily consist of permanently endowed funds, debt service reserve funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campuses follow capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Campuses capitalize movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of

\$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2011 was \$2,243,695.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

Net Assets

The Campuses' net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Campuses' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Campuses are legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campuses, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campuses' policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes

The University is a department of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campuses may be subject to taxation as unrelated business income. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

Classification of Revenues

The Campuses have classified their revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campuses' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) patient charges received in exchange for providing health-related services;
- (3) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (4) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campuses; and
- (5) grants and contracts that are essentially the same as contracts for services that finance programs the Campuses would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, Pell grant, State Fiscal Stabilization funds, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campuses, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campuses' financial statements.

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To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campuses have recorded a scholarship discount and allowance.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Management believes that the Campuses' rebatable arbitrage liability at June 30, 2011 is \$490,000.

Note 2 - Cash And Cash Equivalents, Other Deposits, And Investments

Most deposits and investments of the Campuses are under the control of the State Treasurer who, by law, has sole authority for investing State funds. As permitted, certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors. Deposits and investments of the Campuses' blended component unit are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the notes to the statements of net assets amounts:

Statements of Net Assets		Notes	
Cash and cash equivalents (current)	\$ 364,193,130	Cash on hand	\$ 241,594
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	539,067,458
Debt service	12,299,570	Other deposits	40,152
Scholarship, research, instruction, and other	11,892,521	Blended component unit deposits	12,061,459
Capital projects	96,868,173	Investments held by State Treasurer	2,528,550
Restricted cash and cash equivalents(non-current):		Other Investments	3,479,007
Endowments	56,495,558	Blended component unit investments	6,942,363
Federal student loans	1,994,591		
Debt service reserve	7,667,120		
Investments (current)	6,942,363		
Investments (non-current)	6,007,557		
	<u>\$ 564,360,583</u>		<u>\$ 564,360,583</u>

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Campuses' other deposits at year-end were entirely covered by federal depository insurance or were fully collateralized by securities held by the pledging bank's trust department.

Investments Held by State Treasurer and Other Investments

The Campuses' investments include common stock held by the State Treasurer for the Campuses.

The Campuses have other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, the Campuses will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

The Campuses do not have a formal investment policy that limits investment maturities as a means of managing its

exposure to fair value losses arising from increasing interest rates.

Other investments totaling \$3,340,612 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name.

The net change in unrealized appreciation of investments for the current fiscal year decreased in the amount of \$654,056.

Blended Component Unit Deposits

The Trust's general ledger cash and cash equivalents balance includes cash on deposit with financial institutions of \$12,061,459. At December 31, 2010, the Trust's bank balances had demand deposits and sweep accounts totaling \$14,921,668. Of these amounts, approximately \$12,933,000 exceeded the limits of federal depository insurance (FDIC).

Of the amount exceeding federal depository insurance limits, \$12,558,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement. Management does not believe that significant credit risk is associated with its banking relationships.

Blended Component Unit Investments

Investments of the Trust consist of long-term certificates of deposit, equity and debt securities, and mutual funds. Investments are carried at fair value.

The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 2,603,616	\$ 3,054,748
Mutual funds	1,957,740	2,136,660
Money market funds	129,081	129,081
Certificates of deposits	313,774	327,600
Other debt instruments	<u>1,280,978</u>	<u>1,294,274</u>
	<u>\$ 6,285,189</u>	<u>\$ 6,942,363</u>

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Notes to Financial Statements

The net change in unrealized appreciation of investments for the current year decreased in the amount of \$184,400.

Of the total cash and cash equivalents for the Trust, \$141,668 was held in escrow by the Series 2000 Bond trustee for the purpose of making the required annual principal payment on September 1, 2011.

The difference in reported book balance and the bank for deposits is comprised of in-transit reconciliation items at fiscal year end.

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name.

Note 3 - Receivables

Accounts Receivable

Accounts receivable consisted of the following:

Students and sponsors	\$ 6,591,180
Auxiliary enterprises	3,582,673
Federal grants and contracts	22,881,766
State grants and contracts	188,117
Local grants and contracts	93,144
Non-governmental grants and contracts	4,058,996
Accrued interest	5,135,966
Blended component unit	5,375,994
	<u>47,907,836</u>
Less allowance for doubtful accounts	(722,348)
Accounts receivable, net	<u>\$ 47,185,488</u>

Allowances for doubtful accounts are based upon actual losses experienced in prior years and evaluations of the current accounts.

Patient Accounts Receivable

The Trust, through its affiliation with a hospital, provides medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue.

Adjustments related to bad debts of privately paying patients are recorded as a provision for uncollectible accounts expense.

Patient accounts receivable, net consisted of the following:

Adjusted patient charges	\$ 4,536,000
Less estimated uncollectible charges	<u>(1,196,000)</u>
Patient accounts receivable, net	<u>\$ 3,340,000</u>

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value is determined by each unit based on its collection experience for similar receivables.

Student Loans Receivable

Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campuses ceased to participate in the programs.

As the Campuses determine that loans are uncollectible, the loans are assigned to the federal agency administering the loan programs.

Capital Improvement, Infrastructure Bonds and Capital Reserve Fund Appropriation Receivable

The capital improvement, infrastructure bonds and capital reserve fund appropriation receivable represents outstanding bond fund proceeds that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, state university infrastructure bonds and capital reserve fund appropriation bonds to fund improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
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The Campuses have \$13,554,827 of outstanding state capital improvement bond authorization, \$436,551 of outstanding research infrastructure bond authorization, \$17,371 of outstanding state university infrastructure bond authorization and \$137,943 of capital reserve fund appropriation. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

Notes Receivable

As authorized by the South Carolina Code of Laws, the Campuses may lend certain of its endowment and

auxiliary funds to the University of South Carolina Educational Foundation, a related party. Under the terms of the agreement, the Campuses will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

The principal balance of \$19,638,910 and the related cumulative accrued interest receivable of \$3,412,471 respectively are included in the Notes Receivable and Accounts Receivable, net.

Note 4 - Capital Assets

	June 30, 2010	Additions	Reductions	June 30, 2011
Capital assets not being depreciated				
Land and improvements	\$ 74,138,054	\$ -	\$ -	\$ 74,138,054
Construction in progress	31,987,091	59,727,796	37,728,420	53,986,467
Works of art and historical treasures	<u>18,995,717</u>	<u>170,909</u>	<u>-</u>	<u>19,166,626</u>
Total capital assets not being depreciated	<u>125,120,862</u>	<u>59,898,705</u>	<u>37,728,420</u>	<u>147,291,147</u>
Other capital assets				
Land improvements	57,288,830	923,388	-	58,212,218
Buildings and improvements	1,038,239,347	40,276,617	4,192,689	1,074,323,275
Machinery, equipment and other	139,158,921	11,891,932	2,177,430	148,873,423
Vehicles	10,181,488	794,752	404,589	10,571,651
Intangibles	3,480,735	590,553	-	4,071,288
Blended component unit				
Buildings and improvements	17,656,358	30,000	47,920	17,638,438
Medical and office equipment	<u>6,891,697</u>	<u>208,305</u>	<u>736,080</u>	<u>6,363,922</u>
Total capital assets at historical cost	<u>1,272,897,376</u>	<u>54,715,547</u>	<u>7,558,708</u>	<u>1,320,054,215</u>
Less accumulated depreciation for				
Land improvements	10,394,255	2,287,928	-	12,682,183
Buildings and improvements	397,581,497	29,227,433	3,023,305	423,785,625
Machinery, equipment and other	101,880,935	10,566,341	1,838,730	110,608,546
Vehicles	7,991,069	856,001	391,173	8,455,897
Intangibles	2,840,907	372,993	-	3,213,900
Blended component unit				
Buildings and improvements	5,986,840	542,116	29,362	6,499,594
Medical and office equipment	<u>5,198,371</u>	<u>545,388</u>	<u>721,947</u>	<u>5,021,812</u>
Total accumulated depreciation	<u>531,873,874</u>	<u>44,398,200</u>	<u>6,004,517</u>	<u>570,267,557</u>
Other capital assets, net	<u>741,023,502</u>	<u>10,317,347</u>	<u>1,554,191</u>	<u>749,786,658</u>
Capital assets, net	<u><u>\$ 866,144,364</u></u>	<u><u>\$ 70,216,052</u></u>	<u><u>\$ 39,282,611</u></u>	<u><u>\$ 897,077,805</u></u>

The loss on disposal of assets consisted of the following:

Proceeds from sale of capital assets	\$ 49,363
Net book value of capital assets disposed	<u>(1,554,191)</u>
	<u><u>\$ (1,504,828)</u></u>

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

Note 5 - Pension Plans

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the Campuses are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 2006, employees participating in the SCRS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 13.14 percent which included a 3.9 percent surcharge to fund retiree health and dental insurance coverage. The Campuses' actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2011, 2010, and 2009, were \$18,614,000, \$18,523,000, and \$18,830,000, respectively, and equaled the required contributions of 9.24 percent (excluding the surcharge) for each year. Also, the Campuses paid employer group-life

insurance contributions of \$302,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 15.03 percent which, as for the SCRS, includes the 3.90 percent surcharge. The Campuses' actual contributions to the PORS for the years ending June 30, 2011, 2010, and 2009 were \$415,000, \$382,000, and \$377,000, respectively, and equaled the required contributions of 11.13 percent (excluding the surcharge) for each year. Also, the Campuses paid employer group-life insurance contributions of \$7,500 and accidental death insurance contributions of \$7,500 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

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ORP participation is available to all employees who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must waive SCRS membership within their first thirty days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.90 percent from the employer in fiscal year 2011.

Certain of the Campuses' employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$13,828,000 (excluding the surcharge) from the Campuses as employer and \$9,736,000 from its employees as plan members. In fiscal year 2011, the Campuses paid \$224,000 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Campuses have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Participants who entered the TERI program prior to July 1, 2005 do not make SCRS contributions, do not

earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Participants who entered the TERI program as of July 1, 2005 or after are required to make SCRS contributions but do not earn service credit, and are ineligible to receive disability retirement benefits.

Blended Component Unit

The Trust provides a defined contribution plan covering all faculty participants in the Trust. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the year ended December 31, 2010 amounted to \$1,428,000 and were included as a component of personal services and related expenses.

Note 6 - Postemployment And Other Employee Benefits

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campuses contribute to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

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RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.90% of annual covered payroll for 2011. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$13,839,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2011. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal year ended June 30, 2011.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

Note 8 - Lease Obligations

The future minimum lease payments for noncancelable operating leases are as follows:

Real Property Operating Leases

2012	\$ 1,119,774
2013	1,034,556
2014	905,000
2015	905,000
Total minimum lease payments	<u>\$ 3,964,330</u>

The payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2012-2015. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$1,847,458 for fiscal year 2011. Of this amount, \$161,850 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of

Note 7 - Contingencies, Litigation, And Project Commitments

The Campuses are party to various lawsuits arising out of the normal conduct of its operations. In the opinion of the Campuses management, there are no material claims or lawsuits against the Campuses that are not covered by insurance or whose settlement would materially affect the Campuses' financial position.

The Campuses participate in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, would not be material.

The Campuses had outstanding commitments under construction contracts of \$31,749,674 for capital and \$58,008,063 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

\$972,023 for office copier contingent rentals on a cost per copy basis.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
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The Campuses also have a 35-year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the

entire term. As of June 30, 2011, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,600,000 with \$100,000 reflected as a current asset.

Capital Leases

Buildings held by the Campuses as of June 30, 2011:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$ 18,038,502	\$ 1,349,866	\$ 16,688,636

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

2012	\$ 1,407,797
2013	1,401,185
2014	1,412,413
2015	1,382,878
2016	1,393,046
2017-2021	9,165,657
2022-2026	4,940,033
2027-2031	4,667,439
Total minimum lease payments	25,770,448
Less amount representing interest	8,881,306
Present value of minimum lease payments	<u><u>\$ 16,889,142</u></u>

Capital lease obligations consists of :

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 with interest rates from 5.085% to 6.815%. This agreement expires in March 2031.

\$ 16,889,142

Certain departments of the Trust have acquired medical and office equipment under capital lease agreements. The value at lease inception and accumulated depreciation for equipment recorded under capital leases was \$ 705,033 and \$212,728, respectively, at December 31, 2010. For the year ended December 31, 2010, total interest expense paid for capital leases was \$64,164.

The future minimum lease obligations and the net present value of the minimum lease payments for the Medical Trust are as follows:

2011	174,132
2012	174,132
2013	171,075
2014	130,167
2015	858
Total minimum lease payments	650,364
Less amount representing interest	91,765
Present value of minimum lease payments	<u><u>\$ 558,599</u></u>

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Notes to Financial Statements

Note 9 - Short-Term Debt

The Campuses utilize bond anticipation notes (BANS) to provide interim financing for capital improvements. The Campuses typically convert outstanding BANS to long-term financing as appropriate, within the normal course of business. BANS are included in short-term liabilities and are due within one year.

During fiscal year 2010, \$17,600,000 in athletic facilities revenue BANS Series 2009A were issued to refinance the balance of athletic facilities revenue BANS series 2009A. The BANS were repaid in fiscal year 2011.

Note 10 - Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
State Institution Bonds			
Series 1996B	5.0%	04/01/16	\$ 10,580,000
Series 2001B	4.5%	07/01/11	1,475,000
Series 2002E	3.50% to 5.0%	09/01/22	10,810,000
Series 2003I	3.5% to 4.625%	10/01/23	5,275,000
Series 2006B	3.25% to 5.25%	04/01/26	32,315,000
Series 2011A Refunding	2.0% to 5.0%	03/01/22	18,525,000
Series 2011E	2.0% to 5.0%	03/01/31	<u>20,420,000</u>
Total State Institution Bonds			<u>99,400,000</u>
Revenue Bonds			
Series 2002 Athletic	5.0%	05/01/32	6,490,000
Series 2003B	3.38% to 4.25%	05/01/23	3,685,000
Series 2004A	3.5% to 5.375%	05/01/34	26,805,000
Series 2005A	3.0% to 5.0%	05/01/35	10,990,000
Series 2005A Refunding	4.0% to 5.0%	06/01/30	37,110,000
Series 2008A	3.25% to 5.25%	06/01/38	46,575,000
Series 2008A Athletic	4.0% to 5.5%	05/01/38	27,395,000
Series 2008B Athletic	5.4%	05/01/13	1,040,000
Series 2010A	3.0% to 5.0%	06/01/40	28,010,000
Series 2010A Athletic	3.0% to 5.0%	05/01/40	65,170,000
Series 2010B Refunding Athletic	3.0% to 5.0%	05/01/27	<u>12,605,000</u>
Total Revenue Bonds			<u>265,875,000</u>
Blended Component Unit Revenue Bonds			
Series 2000	Variable	09/01/25	<u>6,375,000</u>
Total Bonds Payable			<u>\$ 371,650,000</u>

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campuses' debt service limit on bonded indebtedness for the preceding year were \$18,850,094 which results in a legal annual debt service at June 30, 2011 of \$16,965,085. The annual debt service payments for the fiscal year were \$9,484,311. Tuition revenue pledged in fiscal year 2011 was \$19,296,404 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2011 were \$11,661,775 from sales and services of auxiliary enterprises.

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2011 consisted of \$1,491,190 in special student fees, \$1,754,229 in special admission fees and \$3,756,226 in athletic department revenues included in sales and services of auxiliary enterprises.

The Campuses have secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of the Campuses.

The Campuses believe they are in compliance with all related bond covenants of their issued debt.

On September 14, 2010, the University issued \$65,855,000 in athletic facilities revenue bonds for the construction of

various athletics facilities and for the payment of the Series 2009A athletic facilities revenue bond anticipation note.

Also on September 14, 2010, the Campuses issued \$12,840,000 in athletic facilities revenue refunding bonds to partially advance refund the Series 2002A revenue bonds maturing from May 1, 2013 to May 1, 2027 and callable May 1, 2012. The refunding transactions resulted in a deferred loss on refunding of \$1,105,061, an aggregate debt payment reduction of \$1,226,421 over the next seventeen years and an economic gain of \$952,463.

On March 3, 2011, the Campuses issued \$20,420,000 in state institution bonds for the construction of a new building and various renovation projects.

Also on March 3, 2011, the Campuses issued \$18,525,000 state institution refunding bonds to partially advance refund the Series 2001B state institution bonds maturing from July 1, 2012 to July 1, 2021 and callable July 1, 2011. The refunding transactions resulted in a deferred loss on refunding of \$649,361, an aggregate debt payment reduction of \$1,535,375 over the next eleven years and an economic gain of \$1,622,104.

The refunding bonds were used to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments related to the \$30,450,000 of University bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

The blended component unit revenue bonds are limited obligations of the Trust. The terms of indebtedness provide that bondholders may redeem, or put, the bonds to the remarketing agent on dates that approximate a monthly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a renewing letter of credit provided by Wells Fargo. In prior years, the letter of credit purchased from Wells Fargo was a 13 month, automatically renewing instrument. Accordingly, at all times, the earliest possible date the Trust would have to repay the debt was 13 months. This feature allowed the Trust to classify the debt schedule to be repaid outside the next 12 month period as a non-current liability. During 2010, Wells Fargo asked for a change in the provisions of the letter of credit. Under the new provisions, the letter of credit does not automatically renew and the earliest date the Trust may request a renewal is six months in advance of renewal. As a result the Trust can no longer classify any of the Series 2000 Bonds as non-

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

current. For the year ended December 31, 2010, all Series 2000 Bonds are classified as a current liability even though the scheduled redemptions remain through 2025.

In connection with the issuance of the bonds, the Campuses have pledged that for as long as any bonds remain outstanding, the Campuses will not terminate the Trust and will cause it to be operated so that all interest and principal on the bonds will be paid. As additional security to Wells Fargo, the Trust has granted Wells Fargo a security interest in substantially all real and personal property of the Trust, in the Trust's rights to medical office building rents, and in its land lease with the Campuses.

The terms of the indenture of Trust (the "Indenture") relating to the issuance of the bonds provide that they bear interest at a variable rate, not to exceed 12%. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2010, the average interest rate on the bonds was .25%.

The scheduled redemptions of the blended component unit revenue bonds are as follows:

2011	\$	425,000
2012		425,000
2013		425,000
2014		425,000
2015		425,000
2016-2020		2,125,000
2021-2025		<u>2,125,000</u>
	\$	<u>6,375,000</u>

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

The scheduled maturities of the Campuses' bonds payable by type are as follows:

	Principal	Interest	Total
State Institution Bonds			
2012	\$ 6,695,000	\$ 4,208,125	\$ 10,903,125
2013	7,005,000	3,960,531	10,965,531
2014	7,285,000	3,683,294	10,968,294
2015	7,595,000	3,374,270	10,969,270
2016	7,945,000	3,049,840	10,994,840
2017-2021	31,415,000	10,907,695	42,322,695
2022-2026	24,585,000	4,082,243	28,667,243
2027-2031	6,875,000	1,042,588	7,917,588
Total	\$ 99,400,000	\$ 34,308,586	\$ 133,708,586

	Principal	Interest	Total
Revenue Bonds			
2012	\$ 6,735,000	\$ 12,612,623	\$ 19,347,623
2013	7,025,000	12,334,455	19,359,455
2014	7,305,000	12,053,994	19,358,994
2015	7,635,000	11,729,581	19,364,581
2016	7,350,000	11,392,456	18,742,456
2017-2021	41,875,000	51,865,259	93,740,259
2022-2026	50,840,000	41,692,263	92,532,263
2027-2031	54,780,000	29,144,850	83,924,850
2032-2036	51,140,000	15,563,231	66,703,231
2037-2040	31,190,000	3,540,287	34,730,287
Total	\$ 265,875,000	\$ 201,928,999	\$ 467,803,999

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

Notes Payable

Notes payable consisted of the following:

Campuses' note payable to acquire energy savings lighting retrofit, dated December 2004, payable in annual installments of \$130,719, matures December 2012, fixed interest rate of 1.00%.	\$ 257,549
Campuses' note payable secured by printing press equipment, dated September 2007, payable in semi-annual installments of \$43,008, matures September 2014, fixed interest rate of 3.6%.	280,478
Campuses' note payable to acquire rare literary collection, dated January 2008, payable in annual installments of \$25,000, matures January 2012, imputed fixed interest rate of 3.58%.	24,136
Campuses' note payable secured by stadium lighting, dated July 2008, payable in annual installments of \$117,743, matures July 2012, fixed interest rate of 3.61%.	223,321
Campuses' note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of \$31,458, matures December 2015, imputed fixed interest rate of 2.15%.	147,771
Campuses' note payable for energy efficiency projects, dated October 2010, payable in annual installments of \$234,102, at no interest, matures October 2013.	32,254
Campuses' note payable for energy efficiency projects, dated June 2010, payable in annual installments of \$5,576, at no interest, matures June 2015.	21,505
Campuses' note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$5,831 at no interest, matures January 2015.	22,159
Campuses' note payable for energy efficiency projects, dated September 2009, payable in annual installments of \$3,287 at no interest, matures September 2014.	13,156
Campuses' note payable for energy efficiency projects, dated December 2010, payable in annual installments of \$2,021 at no interest, matures December 2013.	3,341
	\$ 1,025,670

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 415,809	\$ 24,115	\$ 439,924
2013	367,382	14,610	381,992
2014	126,500	5,699	132,199
2015	85,154	2,072	87,226
2016	<u>30,825</u>	<u>663</u>	<u>31,488</u>
Total	<u>\$ 1,025,670</u>	<u>\$ 47,159</u>	<u>\$ 1,072,829</u>

Note 11 - Long-Term Liabilities

Long-term liability activity was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Bonds and notes payable and capital lease obligations					
State institution bonds	\$ 85,300,000	\$ 38,945,000	\$ 24,845,000	\$ 99,400,000	\$ 6,695,000
Revenue bonds	204,680,000	78,695,000	17,500,000	265,875,000	6,735,000
Blended component unit revenue bonds	<u>6,800,000</u>	<u>-</u>	<u>425,000</u>	<u>6,375,000</u>	<u>6,375,000</u>
	296,780,000	117,640,000	42,770,000	371,650,000	19,805,000
Add: unamortized bond premiums	4,545,945	9,474,715	445,612	13,575,048	619,125
Less: unamortized loss on bond refunding	<u>2,121,902</u>	<u>1,754,422</u>	<u>187,398</u>	<u>3,688,926</u>	<u>246,698</u>
Total bonds payable	299,204,043	125,360,293	43,028,214	381,536,122	20,177,427
Notes payable	33,993,341	92,413	33,060,084	1,025,670	415,810
Capital lease obligations	17,329,141	-	439,999	16,889,142	480,000
Blended component unit Capital lease obligations	<u>641,057</u>	<u>23,294</u>	<u>105,752</u>	<u>558,599</u>	<u>132,503</u>
Total bonds, notes and capital leases	<u>351,167,582</u>	<u>125,476,000</u>	<u>76,634,049</u>	<u>400,009,533</u>	<u>21,205,740</u>
Other liabilities					
Accrued compensated absences	24,415,754	11,490,147	11,909,898	23,996,003	11,278,121
Retainage payable	807,591	1,772,722	624,660	1,955,653	1,651,254
Deferred revenues	30,098,529	29,450,976	29,415,196	30,134,309	29,450,976
Federal loan liability	<u>16,511,782</u>	<u>-</u>	<u>161,594</u>	<u>16,350,188</u>	<u>-</u>
Total other liabilities	<u>71,833,656</u>	<u>42,713,845</u>	<u>42,111,348</u>	<u>72,436,153</u>	<u>42,380,351</u>
Total long-term liabilities	<u>\$ 423,001,238</u>	<u>\$ 168,189,845</u>	<u>\$ 118,745,397</u>	<u>\$ 472,445,686</u>	<u>\$ 63,586,091</u>

Additional information regarding bonds and notes payable is included in Note 10.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

Note 12 - Component Units

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the University of South Carolina Development Foundation; the Educational Foundation of the University of South Carolina - Lancaster; and the University of South Carolina Research Foundation. Because the activities and resources of these entities are for the sole benefit of the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as a non-governmental or governmental reporting entity.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the Campuses.

The University of South Carolina Educational Foundation operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses; and interest earnings on notes receivable from the Foundation (See Note 3). The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$170,347,492 or 56% of total net assets. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The Campuses receive funds for scholarships, reimbursement of personnel services fringe benefits and other administrative costs from the Foundation. The Foundation's net assets consist of permanently restricted net assets or permanent endowments of \$21,888,474 or 46% of total net assets. Complete financial statements for the Foundation can be

obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Educational Foundation of the University of South Carolina - Lancaster operates for the benefit and support of the campus. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the campus. The Lancaster campus receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the Campus. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the Campuses, helping graduates keep in touch with one another, and providing programs of continuing education. The Campuses receive funds for scholarships from the Association and provide office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Development Foundation operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Campuses including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the Campuses. The Campuses receive funds for rent and reimbursement for computer and personnel services provided by the Campuses from the Foundation. The Campuses also pay the Foundation for the lease of an aircraft and real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Research Foundation exists exclusively to facilitate the Campuses' teaching, research and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. The Foundation receives research funding from private sources and also competes for federal funds. The Campuses receive funds for research from the Foundation. Complete financial statements for the Foundation can be obtained at

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS

Notes to Financial Statements

USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

Various transactions occur between the Campuses and the component units. A summary of those transactions follows:

Funds Received from Component Units

USC Development Foundation	\$ 22,366
USC Business Partnership Foundation	591,600
USC Educational Foundation	15,042,950
Greater USC Alumni Association	775,185
Educational Foundation of USC Lancaster	235,948
USC Research Foundation	<u>110,009,804</u>
	<u>\$ 126,677,853</u>

The majority of the University of South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$12,559,048 due from the Campuses at June 30, 2011.

Funds Paid to Component Units

USC Development Foundation	\$ 620,649
USC Educational Foundation	132,714
USC Business Partnership Foundation	2,218
USC Research Foundation	<u>70,033</u>
	<u>\$ 825,614</u>

Note 13 - Risk Management

The Campuses have a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board, Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

Title 1 - Administration of Government, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

Title 1 - Administration of Government: Section 1-11-147. Automobile Liability Reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

Title 10 - Public Buildings and Property: Section 10-7-12. Authority to purchase reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

Title 11 - Public Finance: Section 11-9-75. Debt Collection Procedures.

Title 15 - Civil Remedies and Procedures: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

Title 38 - Insurance: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

Title 59 - Education: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

Title 59 - Education: Section 59-67-790. Pupil Injury Fund. The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campuses' insurance coverage in any of the past three years.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campuses include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, risk management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

Note 14 - Biomass Facility

In August 2004, the University entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility is to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately \$19.2 million. Since being placed in service the facility has operated intermittently and is inoperable as of the date of this report. The Campuses and JCI have determined that the existing technology employed to operate the facility is not viable and that an alternate technology must be utilized to make the facility functional. Through June 30, 2011, the Campuses have recorded approximately \$3.8 million in accumulated depreciation resulting in a net book value for the facility of \$ 15.4 million.

University Administration has evaluated the facility for potential impairment. The evaluation included the following considerations: (1) JCI and the Administration believe alternative technologies are available to modify the facility with the ultimate result of providing steam production, (2) JCI and the University are evaluating these alternatives and intend to identify the technology to be used to restart the facility by November 30, 2011, and (3) the Administration believes JCI is contractually obligated to provide annual

payments to the University in the amount of the lost savings that the facility was expected to produce.

Based on these considerations, the Administration has concluded that the facility will ultimately be capable of generating future cost savings, and that these cost savings combined with the contractually obligated payments from JCI will be sufficient to preclude the University from having to record an impairment reserve against the capitalized cost of the facility.

However, an impairment reserve may be required in a future period for some or all of the facility's capitalized costs. Such a reserve is contingent upon whether anticipated cost savings and payments from JCI are realized going forward.

UNIVERSITY OF SOUTH CAROLINA - COLUMBIA AND REGIONALS
Notes to Financial Statements

Note 15 - Operating Expenses By Function

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 177,065,390	\$ 49,911,942	\$ 22,838,022	\$ 14,529	\$ 670,192	\$ -	\$ 250,500,075
Research	58,835,648	19,573,139	33,497,397	3,755	446,627	-	112,356,566
Public service	29,982,563	7,539,962	13,289,013	7,411	287,662	-	51,106,611
Academic support	27,212,726	7,099,250	26,943,524	1,552	25,050	-	61,282,102
Student services	18,123,795	4,557,072	12,179,717	726,081	350,388	-	35,937,053
Institutional support	30,871,377	10,203,592	2,240,426	160,718	23,670	-	43,499,783
Operation and plant maintenance	25,505,409	6,102,317	26,239,924	17,472,108	2,741	-	75,322,499
Auxiliary enterprises	34,083,026	8,850,765	47,422,657	7,020,154	732,717	-	98,109,319
Scholarships and fellowships	106,963	710,717	145,616	-	15,546,504	-	16,509,800
Blended component unit	37,297,902	1,775,377	18,516,062	-	-	1,087,504	58,676,845
Depreciation	-	-	-	-	-	43,310,696	43,310,696
Total operating expenses	<u>\$ 439,084,799</u>	<u>\$ 116,324,133</u>	<u>\$ 203,312,358</u>	<u>\$ 25,406,308</u>	<u>\$ 18,085,551</u>	<u>\$ 44,398,200</u>	<u>\$ 846,611,349</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the financial statements of the business-type activities and the discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses) of the University of South Carolina (the University), as of and for the year ended June 30, 2011, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated December 7, 2011. Our report was modified to include a reference to other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. Other auditors audited the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust); the University of South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, (collectively referred to as the Foundations), as described in our report on the Campuses' financial statements. The financial statements of the Trust and the Foundations were not audited in accordance with *Government Auditing Standards*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Campuses is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Campuses' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Campuses' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campuses' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees and Southern Association of Colleges and Schools and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Columbia, South Carolina
December 7, 2011